FARMERS' NEWSLETTER

Cotton

August 79/C-8

Cotton producers can look for a much bigger crop, larger stocks, and slightly weaker demand in the months ahead.

Based on August 1 conditions, the USDA forecasts the 1979/80 cotton harvest at 13.7 million bales. This would be 2.8 million bales, or 26 percent, more than last season's low-yielding crop.

With less than 1 percent of the 1979 crop ginned by August 1, this forecast is highly tentative. Based on previous August crop forecasts, the odds are 2 out of 3 that output will range between 12.6 to 14.8 million bales.

Chances are good that domestic stocks will build during the 1979/80 marketing year that began on August 1. Therefore, the Government loan and target price programs may be more important than usual in determining your net income from cotton this season.

A key to successfully marketing your 1979 crop is how well you anticipate future price trends. While the USDA is prohibited by law from forecasting cotton prices, we can analyze potential changes in supplies, and in mill use and export demand--the chief factors in determining market prices.

Demand Could Soften

Current indications point to a modest decline in both domestic mill use and raw cotton exports this season. Major factors include changes in world cotton production prospects and in economic conditions here and abroad, especially in textile markets in Western Europe and Japan.

STOCKS COULD RISE SHARPLY

	1978/79[1]	1979/80 Projected	1979/80 Range[2]
	Million 480-lb. bales		
Beginning stocks	5.3	3.8	+0.2
Production	10.9	13.7	+1.1
Total supply	16.2	17.5	+1.1
Mill use	6.3	6.2	+0.4
Exports	6.2	6.0	+1.0
Disappearance[3]	12.6	12.2	+0.8
Ending stocks	3.8	5.4	+1.2
	Cents per pound		
Farm price	[4] 58.8	[5]	
Loan rate[6]	48.0	50.2	

[1] Estimated. [2] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [3] May not add due to rounding. [4] Average to April 1, 1979. [5] USDA is prohibited from projecting cotton prices. [6] For SLM 1-1/16" cotton.

Weaker Economy Lowers Mill Use

The current economic slowdown will probably cause a slight drop in domestic mill use this year. U.S. mills may use an estimated 6.2 million bales during 1979/80, compared with last season's 6.3 million.

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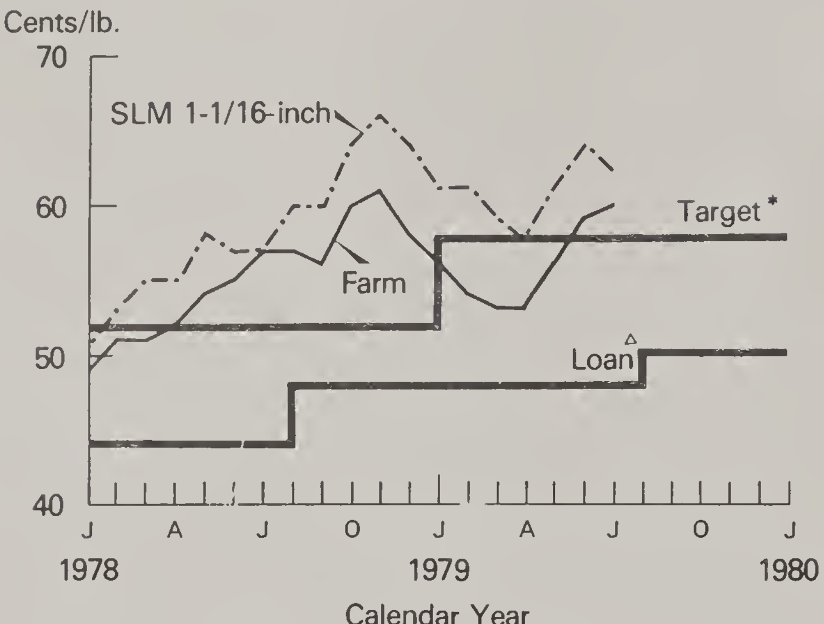
FARM PRICES STRONGER AT MIDYEAR



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

There are, however, some positive elements in the outlook for cotton mill use. First, cotton prices are becoming more competitive with polyester staple, cotton's chief competitor. Last December, for example, mills were paying 20 cents a pound more for cotton than for polyester. This July, cotton prices were only 7 cents above polyester.

Polyester prices could go up another 5 cents a pound in September as rising petroleum costs are pushed through.

Second, U.S. manufacturers are exporting more--and importing fewer--cotton products than a year ago. During the first half of 1979, our cotton textile exports climbed 44 percent over first-half 1978, while imports fell 14 percent.

This improved textile trade, if maintained, could benefit cotton producers by offsetting some of the adverse effects of the weaker U.S. economy on mill demand.

Export Demand Still Strong

Another good season is shaping up for U.S. raw cotton exports with around 6 million bales expected to be shipped in 1979/80.

Exports during 1978/79 totaled an estimated 6.2 million bales, the most since 1960/61. Two nations--South Korea and Japan--accounted for over 40 percent of the total, while another 25 percent went to Taiwan, Hong Kong, and China.

Most forecasters are looking for only slightly weaker economic conditions during coming months in textile producing and consuming nations that use U.S. cotton. So demand for our cotton could soften a bit but remain at a relatively high level.

U.S. exports will also depend heavily on cotton output in foreign countries this season. Foreign production prospects deteriorated during the past month, and cotton crops in the USSR, India, and Central America may be smaller than earlier expected.

Indications now are that foreign production will be up around 1 million bales from last season. An increase of this magnitude would not weaken demand for U.S. cotton appreciably since foreign stocks this August 1 were at their lowest level since 1971. This helped boost U.S. export commitments as of early August to 4 million bales, two-thirds of estimated 1979/80 exports.

U.S. Stocks To Build

A large 1979 cotton crop and slightly weaker demand this season indicate that cotton stocks could increase sharply. Stocks on August

OUR TOP COTTON BUYERS

	1977/78		1978/79[1]	
Country	Bales[2]	Percent	Bales	Percent
S. Korea	1,172,014	22.5	1,135,334	20.9
Japan	1,027,670	19.7	1,160,363	21.3
Taiwan	489,674	9.4	388,907	7.1
Hong Kong. . .	478,692	9.2	366,517	6.7
China.	414,398	7.9	602,846	11.1
Rest of World .	1,636,705	31.3	1,786,156	32.8

[1] August 1978 - June 1979. [2] Running bales.

1, 1980, may total around 5.4 million bales, compared with only 3.8 million this past August 1.

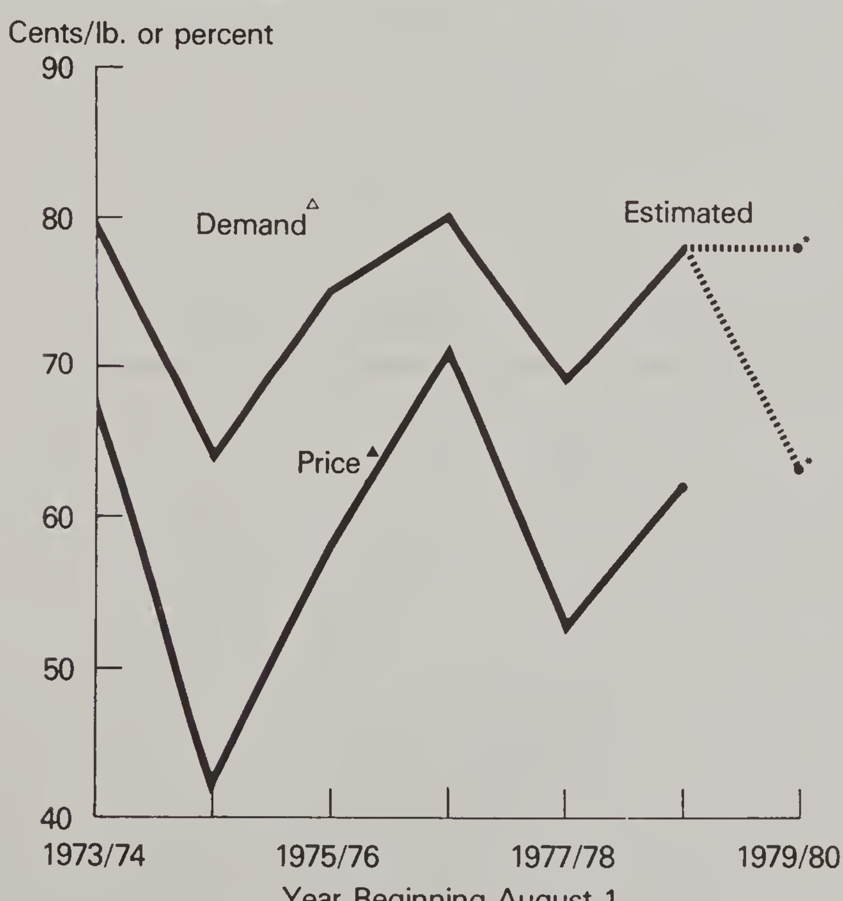
At this early date, such forecasts are very tentative. But barring widespread unfavorable growing conditions, stocks are almost certain to build in 1979/80. Cotton prices will depend heavily on the size of the buildup.

Prices Versus Supplies

The ratio of disappearance--mill use plus exports--to supplies will give you a good measure of how tight cotton supplies are...and therefore what to expect of prices.

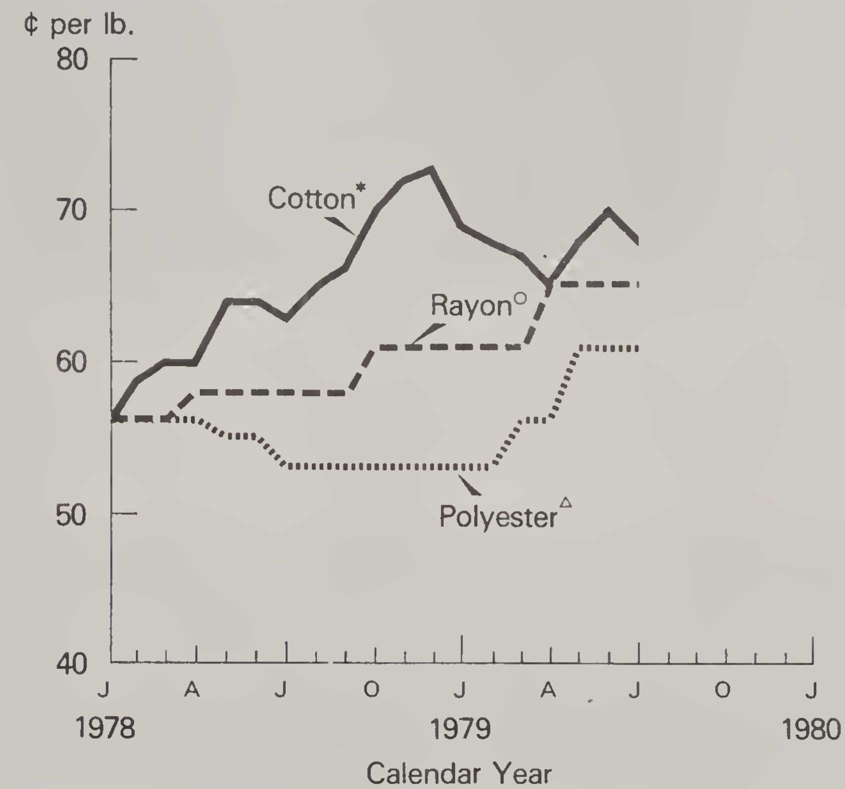
For example, during the 1976/77 season, 80 percent of the cotton supply was either exported or processed in U.S. mills, and the spot market price (SLM 1-1/16-inch cotton) averaged 71 cents a pound. Then came 1977's large crop and only 69 percent of our supplies were used. As a result, the average price fell to 53 cents a pound.

COTTON DEMAND COULD FALL SLIGHTLY



△Mill use plus exports divided by total supply.
▲Average for SLM 1-1/16 inch cotton.
*Likely range based on the August Crop Production report and alternative worldwide cotton growing conditions in 1979.

PRICE GAP NARROWS BETWEEN COTTON AND MANMADES



*SLM 1-1/16" at group B mill points. △Type 54, 1.5 denier staple.
○1.5 and 3.0 denier, regular rayon staple.

Supplies tightened again in 1978/79 with 78 percent being used, and the average spot price rose to 62 cents a pound.

There is a high possibility that the ratio of cotton disappearance to supplies will fall in 1979/80, possibly ranging from 62 to 78 percent.

With the prospect of cotton production exceeding disappearance this season, the target price and loan programs under the Food and Agriculture Act of 1977 take on added importance.

To be eligible for these programs, cotton producers who also grow feed grains or wheat must have complied with the set-aside programs for those crops this year.

Deficiency Payments Are Possible

Deficiency payments will be made to cotton producers if the national average farm price during calendar 1979 is below the target price of 57.7 cents a pound. During the first 7 months of this year, farm prices

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averaged 55-56 cents a pound. While this does not assure that deficiency payments will be made, a large crop this fall would greatly increase their likelihood.

Your deficiency payment would be the difference between the average U.S. price and the target price, regardless of the price you got for your crop. For example, if the national average price was 55 cents a pound in calendar 1979, you would get 2.7 cents a pound whether you sold your cotton for 55 cents or 60 cents.

If you reduced your cotton acreage by 15 percent or more this year, you would get any payment on 100 percent of your acreage. If you cut back by less than 15 percent, some of your acreage may not be covered. The exact amount of the reduction will be determined later--check with your local ASCS office.

Last year's $40,000 maximum on the combined upland cotton, wheat, and feed grain deficiency payments has been increased to $45,000 per person.

Using the Loan Program

The national loan rate for SLM 1-1/16-inch cotton is 50.23 cents a pound for 1979/80. The loan program could accomplish one of two things for you, depending on which way the cash market moves.

- In an up market...

It might pay to put cotton under loan and sell later. The monthly cost of carrying cotton in the loan program is about 0.6 cents a pound (based on a loan value of 50.23 cents).

If, for example, your cotton was under loan for 5 months and the market rose by more than 3 cents during that period, you would be ahead using the program.

- In a down market...

Use of the loan program is a bit more risky. The idea in this case is to take cotton off the market--thereby dampening the downward price movement--repay the loans later and sell.

If your marketing strategy has been to avoid selling at harvest, you can get some cash from the loan program to pay bills at harvest. Whether the cost of taking the loan will be compensated by a later rise in prices depends on how much the loan program tightens "free" supplies.